



AUDIT RESOLUTION POLICY AND PROCEDURES

~~The following audit resolution policy and procedures are set forth in order to establish a comprehensive plan to govern all audit resolution activities. The procedures contained in the policy allow the system to track corrective actions taken by management on reported audit issues and to convey these actions to Executive management and to the Finance Committee in keeping with the Board of Administration's fiduciary oversight responsibilities. Each year the audit resolution policy and procedures will be incorporated into the Biennial Audit Plan.~~

Purpose:

In accordance with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (Standards), the Chief Auditor is required to establish a follow-up process to monitor audit findings and to ensure management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

Policy:

The policy provides a system to track corrective actions or acceptance of risk taken by management on reported audit issues and to convey these actions to Executive management and to the Finance Committee in keeping with the Board of Administration's fiduciary oversight responsibilities.

Management has a responsibility to promptly evaluate reported audit findings, determine appropriate actions to best resolve outstanding items reported, and assure completion of the actions within an established time frame. The resolutions process is the follow-up phase of the audit to ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

~~These procedures are designed to monitor resolution of the following audits:~~

- ~~1. External audits performed by CalPERS' independent financial statement auditor, real estate compliance auditor, and other auditors under contract with CalPERS;~~
- ~~2. Audits performed by the internal audits team of the Office of Audit Services (Audit Services);~~
- ~~3. Audits of contracting public agencies, school districts, the California State University, and State agencies;~~
- ~~4. Audits of real estate partners, advisors, and property managers; and~~
- ~~5. Audits of Health Plans.~~

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~~Each category of audits listed below has unique procedures to ensure efficient resolution of reported audit findings and recommendations.~~

INTERNAL ~~AND EXTERNAL~~ AUDITS

Internal Audits Defined:

Internal audits are performed by the internal audit team of the Office of Audit Services on compliance and the effectiveness and efficiency of CalPERS operations, systems, policies, and procedures. Internal audits also include audits of health maintenance organizations, third-party administrators, and external providers of investment-related services.

Internal Audit Final Report:

Office of Audit Services will transmit the final audit report which includes management's written response outlining its planned corrective action for all findings and recommendations. Office of Audit Services monitors and reports on the resolution status of all findings to the appropriate division management and Executive staff until fully resolved.

~~**Office of Audit Services** -- Audit Services will transmit a draft copy of the audit report to the affected division managers. Within fifteen business days, division managers shall submit written responses stating either concurrence or non-concurrence with all findings and recommendations and provide explanatory comments. The responses will be included in the final reports. During the fifteen-day period, audit staff, when requested, will clarify audit issues and recommendations for the affected division managers. Senior management may decide to assume the risk of not correcting the reported condition because of cost or other considerations. When the Chief Auditor believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the Chief Auditor shall discuss the matter with senior management. The Finance Committee shall be informed in writing of senior management's decisions on all significant observations and recommendations.~~

Resolution Options:

Audit findings can be resolved in one of two ways.

- *Implement the recommendation contained in the report.*
- *Accept the risk of not implementing corrective action due to cost or other considerations.*

Completion:

The audited division shall notify the Office of Audit Services when the audited division has implemented the recommendation contained in the final report. Office of Audit Services shall perform tests as deemed necessary to ensure that management has implemented appropriate corrective action.

Division management that has oversight of health maintenance organizations, third-party administrators, or external providers of investment-related services shall be responsible for ensuring resolution of audit findings and determining if the corrective action has been implemented.

Findings Unresolved for Six Months:

Findings unresolved for six months from the date of the final audit report shall be reported to the Executive Risk Committee.

Findings Unresolved for One Year and Acceptance of Risk:

When any findings remain unresolved for one year, the executive of the audited division shall be required to affirmatively accept the risk of not implementing corrective action, and provide a written explanation as to why the acceptance of risk is the most appropriate disposition of the issue. This action will be reported to the Risk Committee or to the Finance Committee. Management shall be available at Finance Committee meetings to respond to any questions regarding their program areas.

The Chief Auditor shall work with Executive management and the Chief Risk Officer regarding all prospective acceptance of risk. In addition, the Chief Auditor shall work with the Chief Risk Officer to establish a mechanism and process to track all accepted risks and to include these risks in the enterprise risk monitoring process.

In accordance with the Standards for the Professional Practice of Internal Auditing and Government Code Section 13887.5, if the Chief Auditor believes that management has accepted a level of residual risk that may be unacceptable to the organization, the Chief Auditor must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the Chief Auditor must report the matter to the Board for resolution.

~~Executive Staff Assignment~~ – ~~Audit Services will transmit the final report to the appropriate Executive staff member and to the managers affected by the findings and recommendations contained in the report. If significant outstanding finding and recommendations are unresolved after 90 calendar days, Audit Services will request that specific corrective action plans be returned to Audit Services within fifteen business days. Audit Services will also request submission of corrective action plans within fifteen business days covering all outstanding findings and recommendations that remain unresolved over one year. Issues that impact more than one division's operations will be assigned to the management of all affected divisions to coordinate a complete action plan for those issues.~~

~~Corrective Action Plans~~ – ~~Corrective action plans are submitted to Audit Services for review and comment only. Audit Services' comments on the corrective action plans are advisory and are not binding on management. The corrective action plans shall contain the specific actions being taken to mitigate risk, achieve compliance, or otherwise implement the audit recommendation. The corrective action plan will also include the target completion dates for implementing the recommendations, and an estimate of the resources required to complete the plan. Executive staff shall review and approve the corrective action plan and submit it to Audit Services to be monitored.~~

~~At the end of the targeted completion dates or at any time before that date, management of the affected divisions may submit a written response with supporting documentation to Audit Services stating that the corrective actions have been completed. During subsequent audits of the affected divisions, Audit Services or contract auditors will perform such audit tests as deemed necessary to ensure that management has taken appropriate corrective actions to implement all recommendations. Where subsequent audits are not in process or have not occurred, Audit Services will annually review the status of all corrective actions and perform such audits tests as necessary to ensure that management has implemented appropriate corrective actions on all internal and external audit findings.~~

~~As part of the audit follow-up process, Audit Services will notify the Deputy Executive Officer and General Counsel of all outstanding findings where management has not taken appropriate action within the times specified in the corrective action plans. The Deputy Executive Officer and General Counsel will present for resolution all overdue findings and corrective actions during regularly scheduled meetings of Executive staff. Any such finding shall also be reported to the Finance Committee if appropriate corrective actions are not implemented.~~

Report to Finance Committee:

The Chief Auditor shall provide quarterly status reports to the Finance Committee.

~~CONTRACTING PUBLIC AGENCY, SCHOOL DISTRICT, CALIFORNIA STATE UNIVERSITY, and STATE AGENCY AUDITS~~
PUBLIC AGENCY REVIEWS

Public Agency Reviews Defined:

Reviews of contracting public agencies, school districts, California State Universities, and State agency reviews.

Public Agency Final Report:

Office of Audit Services will issue a final report on the results of the public agency review to the subject agency, the appropriate divisions, and the Finance Committee. The agency's written response stating either concurrence or non-concurrence with all findings and recommendations and provide explanatory comments will be included as part of the final report.

Responsibility:

The agency and applicable divisions will work in conjunction to take the necessary corrective actions to address the findings and bring the agency into compliance with the Public Employees' Retirement Law, regulations and contract.

- *The agency and the applicable division management have 90 calendar days to resolve the findings.*
- *Executive management will periodically follow up to ensure that findings are resolved timely.*
- *Office of Audit Services will report findings that are not resolved within 12 calendar months to Executive management.*

~~**CalPERS Staff Assignments** - Audit Services will transmit a draft copy of the audit report to the audited agency and the Actuarial & Employer Services Division or the Benefits Services Division. The audited agency shall submit a written response to CalPERS within fifteen business days stating either concurrence or non-concurrence with all findings and recommendations along with explanatory comments. The agency response will be included in the final report. During the fifteen day period, audit staff, when requested, will clarify audit issues and recommendations for the audited agency.~~

~~Audit Services will transmit copies of the final report to the audited agency, the division chiefs of the Actuarial & Employer Services Division or the Benefit Services Division, and to members of the Board's Finance Committee. The final~~

~~report details the risks and mitigations, and recommends the corrective action to be taken by the audited agency and either the Actuarial & Employer Services Division or the Benefit Services Division.~~

~~**Corrective Action plans** – The audited agency and either the Actuarial & Employer Services Division or the Benefit Services Division will work in conjunction with each other to take the necessary corrective actions to address the findings in the final report to bring the agency into compliance with the Public Employees' Retirement Law. The audited agency and either the Actuarial & Employer Services Division or the Benefit Services Division has ninety calendar days to resolve the findings contained in the final report. The Assistant Executive Officers over Actuarial & Employer Services and Benefit Services will periodically follow up to ensure that the findings are resolved. Audit Services will report semi-annually on the status of the findings and include the resolution results in status reports to the Finance Committee. In addition, Audit Services will refer to the Deputy Executive Officer and General Counsel, for follow up with Executive staff, any findings that are not resolved within 180 calendar days or if the agency disagrees with the findings and recommendation.~~

Report to Finance Committee:

The Chief Auditor shall provide quarterly status reports to the Finance Committee.

**~~REAL ESTATE PARTNERS, ADVISORS, AND PROPERTY MANAGER~~
AUDITS INVESTMENT PROGRAM AUDITS**

Investment Program Audits Defined:

Agreed-upon procedures completed by external auditors of general partners, advisors, and property managers. Office of Audit Services oversees and manages these agreed-upon procedures engagements.

Final Report:

The final report details findings, recommends corrective action, and includes the general partner, advisor, or property manager's response to the findings.

Responsibility:

- *Program management shall be responsible for obtaining specific corrective actions from the general partner, advisor, or property manager to resolve the findings and completion dates for implementing those actions.*
- *Program management shall be responsible for ensuring resolution of audit findings and ensuring that the general partner, advisor, or property manager*

implements property level corrections on a portfolio-wide basis as appropriate.

- *Office of Audit Services will report findings that are not resolved within 12 calendar months to Executive management.*

~~**CalPERS Staff Assignments** – The Board’s Real Estate Compliance Auditor will prepare audit reports on contract compliance by general partners, advisors, and property managers. Audit Services will transmit copies of the Compliance Auditor’s final audit report to the affected property advisor and property manager, the Real Estate Unit, the Assistant Executive Officer, Investment Operations and to members of the Board’s Finance Committee. The Compliance Auditor’s final report details their findings, recommends corrective action, and includes the auditee’s response to the findings. The Real Estate Unit is responsible for contacting auditees regarding specific corrective actions needed to resolve the findings and the completion dates for implementing those actions for findings not resolved during the audit.~~

~~**Corrective Action plans** – Corrective action plans are reviewed by the Real Estate Unit to determine whether the auditee plans are appropriate to resolve the findings. Audit Services and the Board’s Compliance Auditor will advise the Real Estate Unit on corrective actions as needed. Real Estate staff should ensure that the general partner, advisor, or property manager implements property level corrections on a portfolio-wide basis as appropriate. The Assistant Executive Officer, Investment Operations will periodically follow up to ensure that corrective actions are implemented.~~

~~The Real Estate Compliance Auditor provides comments and determines the status of each finding reported to the Board’s Finance Committee. Audit Services will work with the Board’s Real Estate Compliance Auditor, and the Real Estate Unit to report the status of findings, recommendations, and corrective actions in semi-annual status reports to the Finance Committee. In addition, the Audit Services will refer to the appropriate Deputy Executive Officer and General Counsel any findings for which a response does not appear appropriate or where corrective actions are not implemented timely for follow-up with Executive staff. The Board’s Real Estate Compliance Auditor and Audit Services will follow up and perform additional work on findings and corrective actions as considered necessary in view of information and requests received.~~

Report to the Finance Committee:

The Chief Auditor shall provide quarterly status reports to the Finance Committee.

~~HEALTH PLAN AUDITS~~ [Note: included in Internal in the revised policy]

~~CalPERS Staff Assignments— Audit Services will transmit a draft copy of the audit report to the audited health plan and Health Benefits Branch. The audited health plan shall submit a written response to CalPERS within fifteen business days stating either concurrence or non-concurrence with all findings and recommendations along with explanatory comments. The health plan response will be included in the final report. During the fifteen day period, audit staff, when requested, will clarify audit issues and recommendations for the audited health plan.~~

~~Audit Services will transmit the final audit report to the audited health plan, the Health Benefits Branch, and the Assistant Executive Officer, Health Benefit Services detailing the findings and recommendations. The health plan is required to submit a corrective action plan within thirty calendar days to the Health Benefits Branch and Audit Services outlining the specific procedures which will be implemented to resolve the findings and the completion date for implementing corrective action.~~

~~Corrective Action plans - Corrective action plans are reviewed by the Health Benefits Branch to determine whether the corrective action plan is appropriate and resolves the findings. Health Benefits Branch staff will monitor the health plan to ensure that the appropriate corrective actions are implemented. The Assistant Executive Officer, Health Benefits Branch will periodically follow up to ensure that corrective action is taken. Audit Services will regularly monitor the progress in implementing corrective actions on the audit findings. The results of this effort will be included in semi-annual status reports to the Finance Committee. In addition, Audit Services will refer to the Deputy Executive Officer and General Counsel any findings, where corrective action is not taken, for follow up with Executive staff. Furthermore, during subsequent audits of the health plans, Audit Services will conduct such audit tests that are deemed necessary to ensure that corrective action was taken on the findings.~~

~~REPORT TO FINANCE COMMITTEE~~

~~The Chief of Audit Services will make quarterly status reports to the Finance Committee. Semi-annually, these reports will include the status of each audit, the description of outstanding findings, the status of the corrective action which includes number of findings closed, in progress, and overdue, along with the anticipated completion dates and resources required to resolve outstanding audit findings.~~

EXTERNAL AUDITS:

External Audits Defined:

Audits performed by CalPERS independent financial statement auditor and any other external audits that may occur.

Final Report:

The final report details findings, recommends corrective action, and includes management's response to the findings.

Responsibility:

- *Management is responsible for providing the Office of Audit Services with specific corrective actions to resolve the findings and completion dates for implementing those actions.*
- *Office of Audit Services will report to Executive management when corrective actions are not implemented in a timely manner.*

Completion:

The applicable division shall notify the Office of Audit Services when the division has implemented the recommendation contained in the report. Office of Audit Services will obtain and review information for audit finding closure and notify the external auditor. The external auditor shall perform tests as deemed necessary to ensure that management has implemented appropriate corrective action.

Report to Finance Committee:

The Chief of Audit Services shall provide quarterly status reports to the Finance Committee.